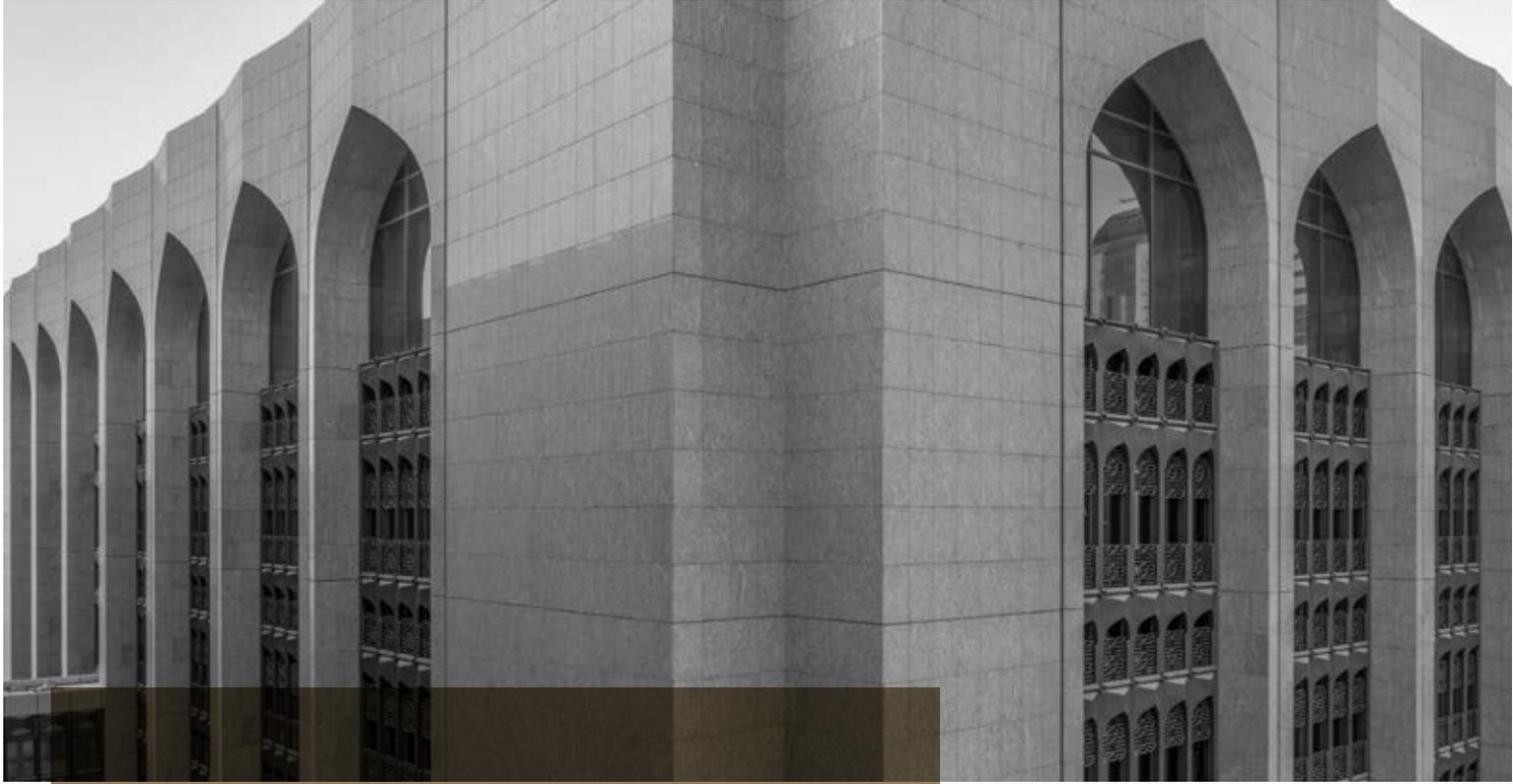




مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.



UAE MSMEs



Business Survey Report 2019

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EXECUTIVE SUMMARY

The report summarizes the main results of the Central Bank of the UAE (CBUAE)'s first survey of a representative sample of 629 MSMEs on the demand side, and SME development Funds, on the supply side.

The sample of companies is dominated by micro and small enterprises (79% of the total) while companies in the Service and Trade sectors occupy more than 86% of the total sampled companies. Free zone-based MSMEs are included in the sample with a share of 16% as these companies can tap banks operating in the mainland for borrowing. And about 80% of firms' owners hold either a university or a professional degree.

The survey was conducted during the period November–December 2019, i.e., in a period of recovery in non-hydrocarbon activities, which came to an abrupt breakdown due to COVID-19 and its repercussions.

Company survey results show that more than 70% of business owners responded that revenues improved or stayed the same in the previous 12 months and more than 85% in Services and Trade activities expected revenues to improve or stay the same in the coming quarter, which is testament to the optimistic sentiment that prevailed prior to the COVID-19 pandemic.

Nearly two thirds of the sample respondents consider themselves to be "financially constrained," i.e., unable to get the needed credit at a reasonable cost. The percentage tops 90% when zeroing in on companies that do not have audited financial accounts. High borrowing costs are among the challenges cited by respondent MSMEs, which signify that the provision of collateral to lenders helps to reduce the borrowing costs by about one half.

At the institutional and capacity building level, the survey results show limited use of the services of the Al Etihad Credit Bureau, the Movable Collateral Registry set up at the Emirates Development Bank, and the Etihad Credit Export Insurance, which may be testament to the lack of awareness about the importance of these services to help reduce borrowing costs and ease access to credit. The findings of the supply side survey of Khalifa Fund and Dubai SME are roughly in line with the demand side results regarding the main challenges. Nonetheless, gender balance seems to be better achieved with female ownership share hovering over 30% of their customers.

The share of both Khalifa Fund and Dubai SME customers that have audited financial accounts is lower than the share reported among the firms surveyed on the demand side, which seems to indicate that these government entities are less stringent regarding the need for financial accounts compared to banks. Nonetheless, Khalifa Fund has highlighted that bank credit improved for customers that had audited accounts, but these firms did not necessarily have lower borrowing costs.

Both Khalifa Fund and Dubai SME ranked the absence of a dedicated regulatory framework for SME lending as the third most important impediment to lending. For the first two impediments, however, Khalifa Fund selected the absence of a federal credit guarantee scheme and a federal Small Business Administration as the main challenges. Dubai SME seems to be more concerned with weak book-keeping and financial management issues as well as lack of venture capital and other alternative sources of funding.

Finally, with regard to the provision of FinTech solutions to MSMEs, both Khalifa Fund and Dubai SME have cited that 'digitized products' (credit guarantee, credit line, etc) and access to market data and research as the two most important FinTech services that would ease the credit conditions for MSMEs. Digitized products in particular would improve efficiency and turnaround time for credit disbursement to MSMEs, while access to market data and research will enable better decision making by MSMEs.



Part 1: The Demand Side Survey

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play a vital role in economic diversification, competitiveness, and job creation, provided they have an adequate eco-system. Therefore, improving the eco-system in order to increase the bankability of the MSME sector is an overriding objective of the UAE strategy in this regard.

A High Level SME Coordination Committee comprising of representatives of the Central Bank, the Ministry of Economy, the Ministry of Finance, the Ministry of State Youth Affairs, the Ministry of Justice, the UAE Banks Federation (UBF), the Emirates Development Bank, Al Etihad Credit Bureau, and SME Development Funds (Khalifa Fund and SME Dubai, and others) met in July 2018 and set up a dedicated SME Working Group (SMEWG). The SMEWG was entrusted with the task to design a holistic strategy to enhance the MSMEs ecosystem, comprising of a list of priority enablers, specifying for each one the lead stakeholder in charge of implementation, and set timeframe in this regard.

In tandem with the SME Working Group, and consistent with best practice, the Central Bank of the UAE commissioned a large-scale survey of a representative sample of MSMEs. Such surveys are conducted by many central banks around the world. In the U.S., twelve Federal Reserve Banks join hands with more than 500 business organizations to issue the yearly "Small Business Credit Survey." Similarly, the European Central Bank issues twice a year the "Survey on the Access to Finance of Enterprises in the Euro Area."

Using insights from these surveys and others, the Central Bank of the UAE designed a survey covering a wide set of information about firms' profile, their activity outlook, their application for external finance and the rejection they may have faced in this regard. MSMEs were also asked to what extent they feel "financially constrained" and how they managed to face the challenges under these conditions.

The demand side survey is complemented with a supply side survey which sheds light on lenders' activities and views on the challenges facing the MSME sector.

The report summarizes the survey results in order to better inform the public about the challenges faced by this vital sector. The goal is to improve the ecosystem so that MSMEs are able to access credit and enhance their role in achieving the UAE Vision 2021 and beyond, to lay the pillars of a dynamic, well diversified, competitive and knowledge-based economy.

SURVEY METHODOLOGY

01

The UAE MSMEs Business Survey was designed based on world's best practices, including similar surveys by the US Federal Reserve Bank and ECB's SME business reports. The main sections are: (1) the profile of companies and majority owners, (2) the business activity outlook and company performance in the past and coming periods, (3) the problems related to bank account opening, (3) book-keeping and audited financial statements, and how they relate to the financing constraints faced by respondent MSMEs, and (4) the role of the newly set-up Credit Registries and Export Insurance. The survey covered 629 MSMEs representatives of the UAE landscape, comprising of 139 micro, 359 small and 131 medium enterprises, covering all the Emirates [Dubai (246 companies), Abu Dhabi (159), Sharjah (115), Ras Al Khaimah (34), etc.]. A survey of the supply side was designed for the SME Development Funds and the Emirates Development Bank.

About 98 companies from the free zones were also included in the sample, due to the fact that these companies can borrow from banks operating in the UAE. The remaining 531 companies operate in the mainland. UAE nationals are majority owners in 170 cases and expatriates in 455 cases.

The financing constraint and other challenges are the main target of the survey, therefore the report focuses on the answers to these questions and to what extent particular challenges explain the degree of financing constraint reported by MSMEs. The survey was conducted in November-December 2019, i.e., in a context of recovery in non-energy sectors following a prolonged economic slowdown resulting from the low for long oil prices and the global slowdown aggravated by the trade war between the U.S. and its trade partners. It is noteworthy that the survey took place before the outbreak of COVID-19 and therefore it did not take into account the severe economic repercussions of the pandemic on the economy. The survey results shed, nonetheless, important lights on small business ownership in the UAE, by gender and educational background, capacity building for adequate book-keeping and audited financial accounts, and the recourse to bank credit and other sources of finance. In addition, the survey takes into consideration the degree of indebtedness of the companies and their use of the services of Al Etihad Credit Bureau, the Movable Assets Registry at the Emirates Development Bank, and the Etihad Credit Export Insurance.

Finally, the survey data enabled an econometric analysis of the factors that better explain the financing constraints faced by MSMEs, thereby identifying the factors that significantly reduced the financing constraints faced by MSMEs to inform CBUAE's key reforms towards easing these constraints. These results are reported in the Box in chapter 4, and they are informative about the key reforms needed to ease the financing constraints faced by these companies.

UAE MSMEs: A PROFILE

02

A. A large MSMEs sample representative of the UAE landscape

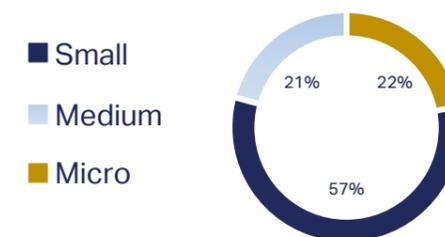
The Central Bank Survey refers to the UAE official MSME definition as shown below according to the number of employees.

Sector Size	Services	Industry	Trading
Micro	Up to 5	Up to 9	Up to 5
Small	6-50	10-100	6-50
Medium	51-200	101-250	51-200

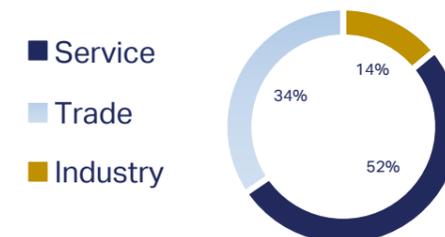
As stated previously, the sample is composed of 621 MSMEs selected to be representatives of all emirates and activities. The shares of the sample by size show that it is dominated by micro and small enterprises (79% of the total). Nonetheless, about 60% of enterprises operate with 10 employees or more, which is much higher than the share reported in Emerging Economies¹. The high number of employees reported by micro and small companies is due to the fact that, by the UAE official definition, companies are considered of micro or small size unless they have more than 50 employees (100 employees in Industry). This may also reflect the labor-intensive nature of small business in the UAE given the flexibility of the expatriate segment of the job market. By sector, Services and Trade occupy more than 86% of the sample, which is consistent with the UAE status as a business and trade hub for the region, leaving a share of 14% for manufacturing industries.

SAMPLE DISTRIBUTION (IN%)

Enterprise Size-wise Distribution



Enterprise Size-wise Distribution



¹ World Bank data show that this share can be as low as 10% or less in some developing economies.

B. MSMEs are selected from free zones as well as the mainland

About 16% of the total sample are MSMEs based in the free zones. The rationale is that these companies can borrow from banks operating in the mainland. With a valid UAE residence and about 3 years of activity, free zone-based companies can apply for a mortgage secured by a collateral in the form of purchased property, a car loan with the purchased vehicle used as a collateral, or a variety of consumer loans. This said, many of these companies may rely more on finance from abroad (home country finance, etc.). For the rest of the 84% of companies, the survey targets mainland-based MSMEs, which are expected to be more exposed to the domestic eco-system, and therefore more financially-constrained.

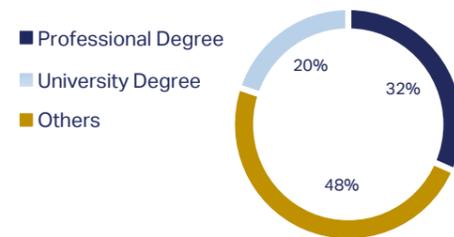
C. The profile of MSMEs in the sample

1. Majority owners are well educated

Survey results show that about 80% of legal majority owners hold either a university or a professional degree. Therefore, they are in a good position to learn about the basics of entrepreneurship, like how to identify business opportunities, acquire the needed resources, build a team and start operations. In other words, specialized entrepreneurship training programs need to seize on this and focus on priority enablers such as enhancing the small business capacity in book keeping, financial management, business development and market search so that they will be more bankable, thereby securing the needed finance and being able to grow and expand locally and abroad.

SAMPLE DISTRIBUTION BY COMPANY'S OWNER EDUCATION (IN%)

Owners Education

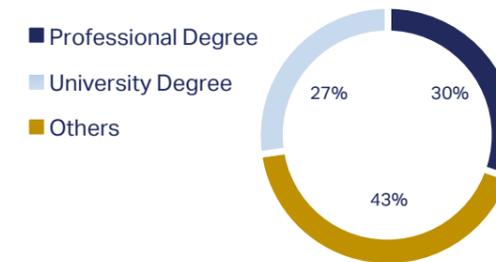


2. Female ownership and education

Female ownership in the sample is limited to 5%, i.e., lower than the 10% of small business founded by women in the UAE, as reported in UN Women, and lower than female representation in the boards of directors of the chambers of commerce and industry (about 15%). Meanwhile, 57% hold either a professional or university degree.

SAMPLE DISTRIBUTION BY FEMALE OWNER'S EDUCATION (IN%)

Female Education

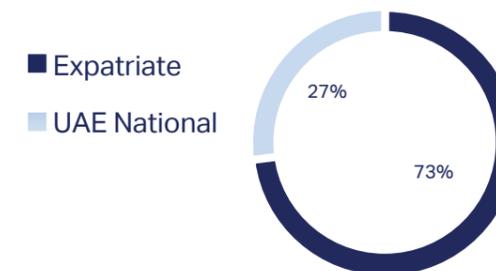


3. UAE nationals are well represented

UAE majority owners in the sample constitute 27% of the total, i.e., higher than the 10% estimate of the (SMEWG) as an example. The difference may be due to the fact that many majority owners in the sample are not effectively engaged in the day to day management of the company.

SAMPLE DISTRIBUTION BY OWNER'S NATIONALITY (IN%)

Nationality



BUSINESS OUTLOOK

03

A positive outlook signifying the rebound of economic activity

As it was indicated earlier, the survey was conducted during the period November–December 2019, i.e., in a period of a recovery following a slowdown in the growth of non-hydrocarbon activities, and excluding the repercussions of COVID-19. The survey results show indeed that more than 70% responded that revenues improved or stayed the same in the previous 12 months, while more than 85% in Services and Trade expected revenues to improve or stay the same, in the coming quarter. Micro enterprises and companies in Industry irrespective of their size were nonetheless less upbeat in this regard. The latter are obviously affected by the global slowdown in manufacturing, as a result of the trade tensions during the recent period.

Overall, this positive outlook is a sign of the resilience of small business in the UAE leading the way for an economic recovery.

PERCENTAGE OF MSMEs RESPONDING THAT REVENUES IMPROVED OR STAYED THE SAME IN LAST 12 MONTHS



PERCENTAGE OF MSMEs RESPONDING THAT REVENUES WILL IMPROVE OR STAY THE SAME IN THE COMING QUARTER



HOW FINANCIALLY CONSTRAINED UAE MSMEs ARE?

04

A. Micro enterprises and Trade firms seem to be the most financially-constrained

A major objective of the survey is to understand to what extent MSMEs consider themselves to be “financially constrained” i.e., unable to get the credit they need at a reasonable cost. According to respondents, the financing constraint decreases with size, from 90% of micro enterprises to 81% of medium size companies. Also, the financing constraint for companies operating in Trade is 6 percentage points higher than in Services and 3 percentage points higher than in Industry.

B. Bank account opening

Some MSMEs may face problems from the start, i.e., at the opening of an account, but more challenging seems to be book-keeping and especially audits. Survey results will be analyzed below, followed with additional challenges.

Almost all respondent MSMEs have bank accounts in the country. About one in four micro enterprises and one in five firms in services, who do have accounts, responded that they find the procedures in this regard to be cumbersome.

PERCENTAGE OF COMPANIES THAT FIND IT CUMBERSOME TO OPEN A BANK ACCOUNT



C. The role of audited Financial statements

For MSMEs to have audited financial accounts is a crucial step to secure bank credit (see the Box on econometric analysis in this chapter). This remains, however, a challenge as nearly half of micro enterprises and MSMEs in the services sector do not have audited financial accounts. This constitutes a serious impediment. Zeroing in on micro companies without audited financial accounts shows that 91% of them are financially constrained, which suggests the crucial importance of book-keeping and audited financials for the financial health of these companies. Therefore, the MSMEs need to improve the quality book-keeping and financial management with targeted training programs.

PERCENTAGE OF MSMEs RESPONDING TO HAVE AUDITED FINANCIAL STATEMENTS



D. Additional challenges of high borrowing costs

Although paying high interest rates tops the list of challenges faced by MSMEs, the size factor plays a crucial role in this regard. Medium size respondents, as an example, manage to deal better with borrowing costs compared to small businesses, due to the fact that with more resources they can have better book-keeping and credit history with banks. The challenge is less acute for microenterprises, which may be explained by the fact that these companies rely less on banks and may even give up on applying for bank loans if they know they will be paying too high interest rates if they ever get the credit.

As regards to the time-consuming application procedures for bank loans, they are reported mostly by micro enterprises, which may be due to the fact that "micro-loans" are costly to process and of less importance to banks given their low value and therefore profitability for the lender. This is the reason microfinance institutions thrived internationally in the provision of microcredit, albeit they usually charge high interest rates³.

BORROWING COSTS (IN %)

Average Annual Borrowing Cost

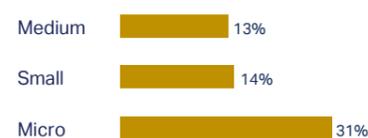


PERCENTAGE OF RESPONDENT MSMEs REGARDING ADDITIONAL CHALLENGES

High Interest Rate



Complicated Application Procedures



Finally, providing acceptable collateral to banks is a real challenge. About 90% of small and medium size companies do not provide a collateral, either because it is not available or owners prefer not to provide it and pay a higher cost instead. For micro enterprises, however, 31% of respondents provide some collateral, which may signify that without such collateral, they will be denied credit altogether. Firms in services, irrespective of their size, face also a similar situation, as they may not possess the kind of tangible assets acceptable as a collateral. For companies that do have intangible assets such as shares and claims/receivables, however, these intangibles are now accepted as a collateral thanks to the new law on the Movable Assets Register at the Emirates Development Bank.

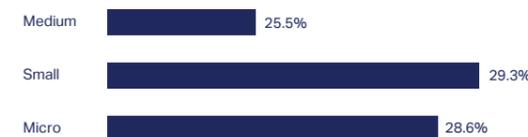
In any case, for companies that have to apply for unsecured loans, borrowing costs shot up from 7% on average to double-digits of about 12%, which is consistent with figures reported in other studies.

E. High credit rejection for small business and services

MSMEs' rejection rate when they apply for bank credit is a worldwide phenomenon. This is due to the previously indicated reasons of high processing costs, high risk of defaults and the low amount of lending involved that makes them of less importance to lenders. Moreover, it was observed internationally that MSMEs tend to be the first affected in downturns compared to larger businesses. The survey sheds light on this phenomenon, showing that nearly a third of micro and small businesses are denied of credit application and the same rate applies for companies in services activities.

CREDIT REJECTION REPORTED BY MSMEs (IN %)

By Size



By Activity

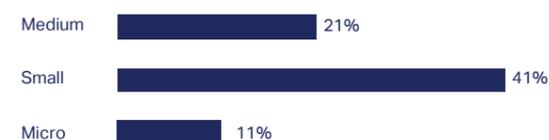


F. Debt overhang seems to be limited to small size businesses and services

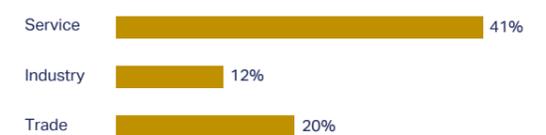
Worldwide, corporate debt reached record levels in the recent period, encouraged by low interest rates and abundant liquidity. In the UAE, bank credit to the private corporate sector continued its increase after the global financial crisis, in response to the needs of the growing non-energy activities. Then, during the episode of "low for long" oil prices since mid-2014, credit to MSMEs declined: from AED 91.6 billion at the end of 2017 to AED 88.8 billion at the end of 2018. Credit to MSMEs showed an improvement to AED 89.5 at the end of 2019, and to AED 92.5 at the end of June 2020. Therefore it is no surprise that only 11% of micro enterprises and 21% of medium sized enterprises consider themselves highly indebted. Given the difficulties these companies face to get bank credit in the first place, outstanding debt remained subdued, suggesting self-financing or alternative modes of financing are more dominant for SMEs.

PERCENTAGE OF HIGHLY-INDEBTED MSMEs

By Size



By Activity



³ Cf. Banerjee et al., 2020, Can microfinance unlock the poverty trap for some entrepreneurs? Available online: <https://voxddev.org/topic/finance/can-microfinance-unlock-poverty-trap-some-entrepreneurs>

EXPLAINING MSMEs' FINANCING CONSTRAINTS

The analysis uses a Probit model to identify the factors that explain the "Financially Constrained" MSMEs. The main highlight of the econometric results show that having audited financial accounts and the age of the enterprise are important factors to ease the financing constraints for MSMEs. The econometric analysis uses a sample of 588 MSMEs to investigate variables' effects on enterprises' financial stances. The survey asks enterprises whether they consider themselves to be "Financially-constrained," i.e., unable to get credit they need at a reasonable cost. In the survey response, 87% of the enterprises consider themselves as financially constrained. As the dependent variable is binary, a Probit model has been chosen to estimate the regression.

The Probit model is defined as follows:

$$\text{CONSTRAINED}_i = c + a_1 \text{AUD}_i + a_2 \text{LOC}_i + a_3 \text{MEDIUM}_i + a_4 \text{NATIONALITY}_i + a_5 \text{AGE}_i + e_i$$

Where:

1. Constrained: takes the value of 1 if the MSME i is financially constrained; 0 otherwise
 2. AUD: takes the value of 1 if the MSME i has audited financial accounts; 0 otherwise.
 3. LOC: takes the value of 1 if the MSME operates in mainland; 0 in free zone.
 4. MEDIUM: takes the value of 1 if the MSME's size is medium; and 0 if micro or small.
 5. NATIONALITY: takes the value of 1 if the MSME owner is Emirati and 0 otherwise.
 6. AGE: takes the value of 1 if the enterprise's age is more than 5 years old; 0 otherwise.
- e: the error term

Below is the regression output:

Variable	Coefficient	p-value
Constant	1.821	0.0000
AUD	-0.485	0.0069
LOCATION	-0.245	0.2420
MEDIUM	-0.024	0.8812
NATIONALITY	-0.174	0.2301
E_AGE	-0.247	0.1147

First, the results confirm that the independent variable AUD is the most significant (at 99% confidence), i.e., to have audited financial accounts is instrumental to secure MSME credit from the banking sector. This is expected since audited financial statements demonstrate consistency and objectivity in financial reporting, while establishing a clear view for planning future business activities, thereby encouraging lenders to provide credit at a lower cost. Indeed, banks and other lenders generally limit activity to only proven companies with solid business models, mainly favoring lending to companies with audited financial reporting⁴.

Second, enterprise age (signifying stability of the company) is significant at a border line of 11% significance level. This is consistent with the finding reported in several studies stating that "firm age, rather than firm size is a more important factor determining whether a firm faces financing constraint"⁵. The older the firm, the more information and credit history it can provide, the more lenders will be willing to provide the company with loans, implying less financing constraint.

The three other explanatory variables remain insignificant at the conventional 10% confidence level, but have the right expected signs. The list includes location of the enterprise, either operating in the mainland or in the free zones; also we account for the nationality of the owner, as an Emirati owner may weigh in the possibility of easier access to finance from banks. The rationale behind this is that an Emirati may have the facilities to provide collateral compared to an expat. In addition, even in the absence of collateral, banks might be more successful in the case of non-payment in taking an Emirati to court while a foreigner can pose a higher risk of skipping.

The regression results are satisfactory and in line with the literature. Going forward, the survey will address more suitable questions for econometric analysis to better understand the challenges MSMEs face and provide data-driven recommendations for decision-making.

⁴ See "The benefits of audited financial statements," available online: <https://kleinhalcpa.com/2018/05/22/benefits-audited-statements>.

⁵ BIS, 2014, "SMEs, financial constraints and growth," BIS Working Papers, No. 475, December.

THE LIMITED USE OF CREDIT REGISTRIES AND EXPORT INSURANCE

05

The availability of registrars of commercial assets, whether fixed assets such as land and buildings owned by a company or movable assets such as machinery and motor vehicles, makes these assets easily acceptable collaterals to banks, which enhances MSMEs' access to credit at a lower cost.

Nonetheless, the survey results related to the use of the Movable Credit Registry set up at the Emirates Development Bank show very limited use, especially by micro and small enterprises. Therefore, there is a need for more awareness among MSMEs about its importance for the registration of their movable assets.

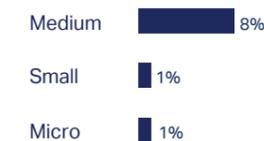
Survey results show also a very low percentage of MSMEs obtaining high scores from Al Etihad Credit Bureau (AECB). Therefore, there is a need for companies to be aware of all information on their past borrowing at AECB and the factors that affect their credit score.

The Etihad Credit Export Insurance (ECEI), was established as an initiative by the UAE's government in 2017 to support exports and re-exports as well as foreign investment by UAE companies. Its products include export insurance against commercial and non-commercial risks, such as buyer's insolvency/bankruptcy, buyer's failure to pay, buyer's refusal to deliver goods, foreign exchange transfer delay, import bans or cancellation of import licenses, payment moratorium, etc.

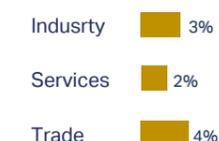
Insurance against these risks is crucial for exporters. Nonetheless, no more than 1% of respondents used it so far. ECEI's infancy may be a reason. Nonetheless, given the rising regional uncertainties and risks, more awareness about insurance products provided by ECEI is needed to boost exports and encourage more SMEs to become more export-oriented, thereby enhancing the UAE status as a regional business, logistics and trade hub.

PERCENTAGE OF COMPANIES AT THE MOVABLE ASSETS REGISTRY

By Size



By Sector



Part 2: Supply Side Survey

SURVEY OF SMEs DEVELOPMENT FUNDS

06

A. Introduction

Local governments recognized early on the needs for public support for MSMEs by establishing the so-called SMEs Development Funds.

Dubai SME, an agency of the Department of Economic Development (DED), Government of Dubai, aims to foster an entrepreneurial culture and develop a competitive SME sector for the Emirate of Dubai. The key strategies adopted by Dubai SME are: advocate a pro-business environment for developing entrepreneurship and SMEs, seed innovative start-ups and groom promising SMEs. Dubai SMEs vision is to make Dubai the center for innovative SMEs to start, grow and expand their businesses, thus adding greater value to the economy of Dubai.

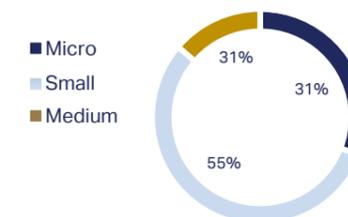
Khalifa Fund was established in 2007 as an initiative of the government of Abu Dhabi. Its capital grew rapidly from AED 300 million to AED 2 billion, which allowed it to expand its activity all over the country. The survey shows that 30% of Khalifa Fund customers are of small size and 69% are micro enterprises.

The loan book shows a wider distribution by size as well as by sector, with trade getting 23% of the total and the rest is roughly equally distributed between industry and services.

The distribution by Emirate shows outreach to all Emirates albeit Abu Dhabi gets the lion's share given the fact that it is an initiative of the local government.

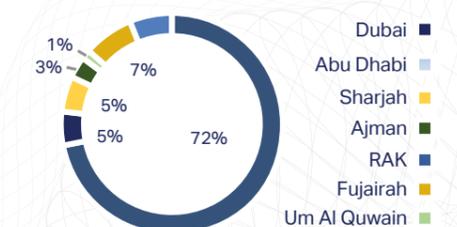
KHALIFA FUND LOAN PORTFOLIO BY SIZE (%)

Khalifa Fund



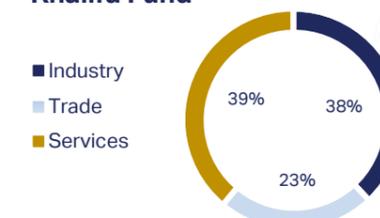
KHALIFA FUND CUSTOMERS BY EMIRATE (%)

Khalifa Fund by Emirate (%)



KHALIFA FUND LOAN PORTFOLIO BY SECTOR (%)

Khalifa Fund



Dubai SME is limited to the Emirate of Dubai. All its customers turned out of micro size, while 89% of its loan portfolio belong to the Services sector and none are in the manufacturing sector.

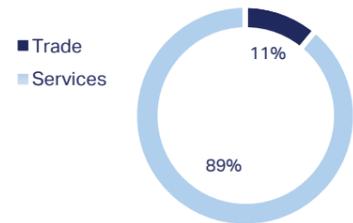
As regards the Emirates Development Bank (EDB), which started operations in 2015 with the aim to support economic diversification mainly through financing of SMEs, more than half (58%) of its customers are small enterprises, by value of the loan book, even though in the total number of customers, 5% are of small size and the remaining 95% are mid-size companies. The average age of the MSME customers in EDB's loan book is about 5 years. And 46% of the MSME customers of EDB are located in Abu Dhabi while another 19% are located in Dubai.

Consistent with the demand side survey results, customers of both Khalifa Fund and Dubai SME are well educated, holding university or professional degree (66% in the case of Khalifa Fund and 83% in the case of Dubai SME), while 66% of EDB customers are university graduates.

Gender balance is also better achieved with female ownership share hovering over 30%, i.e., significantly higher than the 5% share based on the demand side survey, which indicates larger share of women Emiratis owners of SMEs as development funds cannot lend to expats.

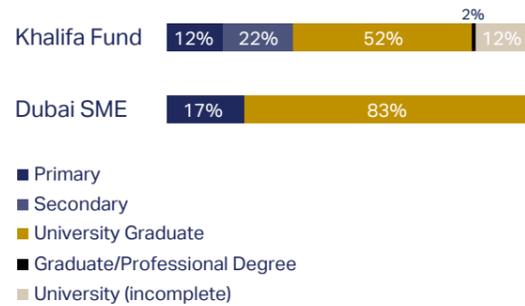
DUBAI SME LOAN PORTFOLIO – BY SECTOR (%)

Dubai SME



MSME CUSTOMERS BY EDUCATION AND GENDER (%)

By Education



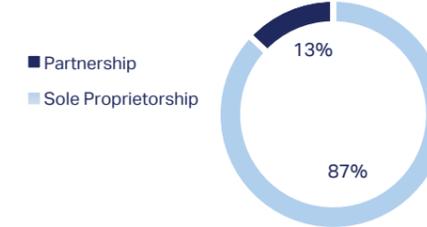
By Gender



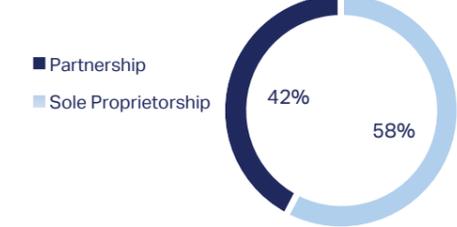
As regards the legal status, sole proprietorship remains dominant with 87% share in Khalifa Fund, 58% of Dubai SME, albeit about one fourth for EDB.

PERCENTAGE OF MSMES WITH AUDITED ACCOUNTS

Khalifa Fund



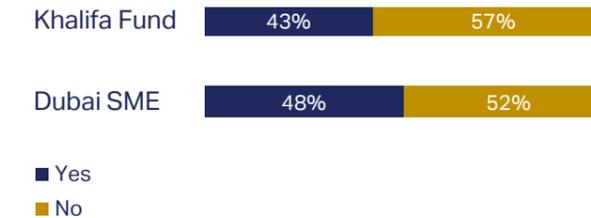
Dubai SME



MSMEs with Audited Accounts

Less than 50% of the MSME customers of both Khalifa Fund and Dubai SME have audited financial accounts, i.e., lower than the share reported on the demand side. Khalifa Fund has highlighted that bank credit improved for customers that had audited accounts, but not the borrowing costs. Meanwhile, all EDB customers have audited accounts, which facilitated their access to credit at relatively low costs.

PERCENTAGE OF MSMES WITH AUDITED ACCOUNTS



Assessment of Credit Worthiness of MSMEs

Both Khalifa Fund and Dubai SME reported that credit history of the company and the availability of personal funds are among the three most important factors for approving loans. For the second most important factor, however, Dubai SME seems to focus more on collateral, while Khalifa Fund takes more into account the revenue and growth outlook of the business, and EDB takes collateral mostly in the form of land and account receivables.

For credit history, about 25% of Khalifa Fund and 60% of Dubai SME customers have a score granted by Al Etihad Credit Bureau, yet both Funds responded that the latter did not seem to increase lending or lower costs for MSMEs, which highlights the fact that it is not considered a significant criterion used in the decision to grant loans.

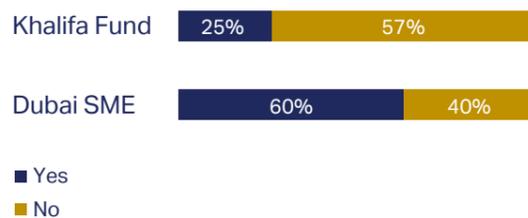
As regards asset registration at the Movable Collateral Registry, Khalifa Fund has highlighted that the 10% of its customers who did so were able to improve their access to credit, while none of Dubai SME's have registered so far.

Rejection of credit applications is noticeably high at SME Development Funds compared with banks: Khalifa Fund (53%), mainly due to insufficient credit history of applicants, Dubai SME (65%) due to weak business performance and pre-existing large debt, and EDB (52%) with the key reasons given: Insufficient credit history and collateral, existence of large debt and low credit score.

ASSESSMENT OF CREDIT WORTHINESS OF MSMEs



PERCENTAGE OF MSMEs WITH AECB SCORE (%)



REJECTION OF CREDIT APPLICATIONS

Variable	Percentage of Rejected Credit Applications	Key Reasons for Rejection of Application
Khalifa Fund	53%	<ul style="list-style-type: none"> Insufficient credit history Weak business performance
Dubai SME	65%	<ul style="list-style-type: none"> Existence of large debt already
EDB	52%	<ul style="list-style-type: none"> Weak business performance

MSMEs' use of Etihad Credit Export Insurance

Only 2% of MSMEs supported by Khalifa Fund use Etihad Credit Export Insurance, while none of Dubai SME customers use it. This is consistent with the results of the survey of the demand side. Again, it may be due to the fact that the program is still at an infancy stage.

Impediments to MSME access to finance

When asked to rank the five presumed key barriers restraining credit to MSMEs, both Khalifa and Dubai SME Funds refer to the absence of dedicated regulatory framework for SME lending as the third most important impediment. For the first two, however, Khalifa Fund emphasized the absence of a federal credit guarantee scheme and a federal Small Business Administration. Dubai SME and EDB seem more concerned with weak book-keeping as well as lack of venture capital and other alternative sources of funding.

5 MOST IMPORTANT OBSTACLES RESTRAINING CREDIT TO MSMEs IN THE UAE



Fintech Solutions for MSMEs

As per the survey, both Khalifa Fund and Dubai SME are involved in providing Fintech solutions to their MSME customers. Dubai SME partnered with Beehive, a Dubai-based fintech providing peer-to-peer lending, and created a unique model to provide government credit guarantee to encourage individual investors to finance SMEs according to their needs. The provided digitized products include business financing (term loans) and invoice financing (credit loans).

Both Funds have cited nonetheless that "digitized products" (credit guarantee, credit lines, ect.) and access to market data and research are the two most important Fintech Services that would ease the credit conditions for MSMEs. Digitized products would improve efficiency and turnaround time for credit disbursement to MSMEs while access to market data and research will enable better decision making by MSMEs.

CONCLUSION

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The survey was conducted during the period of November-December 2019, i.e., it does not take into account the repercussions of COVID-19. The demand side survey results show that UAE nationals are fairly represented in the MSME landscape in the UAE. The majority are well educated, i.e., they are in a position to benefit from targeted capacity building to grow locally and expand in export activities abroad.

As regards book-keeping the survey shows that the challenge is to have appropriate audit, which constitutes a serious impediment for the company to secure bank credit at a reasonable cost. Other challenges relate to the provision of collateral, which reduces borrowing costs by nearly a half, and may reduce credit rejection by banks.

The supply-side survey results pointed to the absence of a Federal Credit Guarantee Scheme, a Federal Small Business Administration as the most important obstacles restraining credit to these companies, leading to a fragmentation with different services provided by multiple entities; issuing a comprehensive regulatory framework for SME leading was also pointed out.

Both the demand and supply side surveys point to very limited use of the services of the Etihad Credit Export Insurance, Al Etihad Credit Bureau (AECB), and the Movable Collateral Registry at EDB. For the effectiveness of the latter, as an example, there was a need to wait for the passage in May 2020 of the draft law on securing movable assets, which would encourage lending at a lower cost to MSMEs. More generally, some of the services provided by these institutions are still at an infancy stage and therefore MSMEs may lack awareness of their benefits and as a result limit their use.

In conclusion, both demand and supply side surveys show challenges for MSMEs related to absence of audited accounts, lack of collateral, in tandem with limited use of the services of the Credit Bureau and credit export insurance, which inhibit companies' access to finance, thereby revealing areas where reforms are expected to have the biggest impact on improving the UAE MSMEs ecosystem.